

Message Text

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ACTION COME-00

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FM AMEMBASSY BRASILIA

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INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 5384

E.O. 11652: N/A

TAGS: BEXP, ETRD, BR

SUBJECT: RAILWAY CARS

SUMMARY: PULLMAN STANDARD REPRESENTATIVES, ON JULY 18, MET WITH MINISTER OF TRANSPORTATION TO INFORM HIM OF COMPANY'S CURRENT OFFER ON RAILCARS AND TO REQUEST THAT SIZE OF TENDERS BE INCREASED TO 3,000 CARS. MINISTER WELCOMED PULLMAN'S PARTICIPATION IN COMPETITION BUT DID NOT FAVOR INCREASING SIZE OF TENDERS. REGARDING RECENT CONTRACTS FOR YUGOSLAV AND ROMANIAN RAILCARS, MINISTER SAID COMMITMENT WAS MADE BY PREVIOUS ADMINISTRATION AND DECISION BY PRESENT GOB TO HONOR COMMITMENT WAS MADE OUTSIDE OF HIS MINISTRY. END OF SUMMARY.

1. ON JULY 18 PULLMAN STANDARD REPRESENTTIVES, TAVARES AND BRITO NETO, ACCOMPANIED BY EMBOFF, CALLED UPON MINISTER OF TRANSPORTATION TO SEEK SUPPORT FOR MORE FAVORABLE CONSIDERATION OF PULLMAN'S OFFERS ON RAIL CAR ACQUISITION BY REDE FERROVIARIA. FIRST OF TWO MAIN POINTS OF PULLMAN PRESENTATION WAS THAT THEIR PRICES, CREDIT TERMS, AND DELIVERY DATES PRESENT A MORE COMPETITIVE PACKAGE THAN THOSE OFFERED BY OTHER SUPPLIERS. TAVARES SPECIFICALLY NOTED THAT PULLMAN'S PRICES WERE AT LEAST 50 PERCENT

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CHEAPER THAN PRICES BY YUGOSLAVIA AND ROMANIA ON RECENTLY

ANNOUNCED CONTRACTS (RIO 2343). WHEN TAVARES MENTIONED YUGOSLAV-ROMANIAN DEAL, MINISTER DISCLAIMED RESPONSIBILITY FOR THAT DECISION. HE SAID THAT COMMITMENT TO ACCEPT YUGOSLAV AND ROMANIAN RAIL CARS WAS MADE BY PREVIOUS ADMINISTRATION AND THAT DECISION HAD BEEN MADE BY CURRENT ADMINISTRATION, OUTSIDE OF TRANSPORTATION MINISTRY, TO HONOR THAT COMMITMENT.

2. SECOND POINT RAISED BY PULLMAN REPS WAS COMPANH'S DESIRE TO BID ON BASIS OF 3,000-CAR CONTRACT. THEY SAID THAT TO MEET BRAZILIAN REQUIREMENTS AT LOWEST PRICE, COMPANY WAS PREPARED TO CONVERT A U.S. PLANT TO PRODUCTION EXCLUSIVELY FOR SALES TO BRAZIL AND TO ESTABLISH A ASSEMBLY PLANT IN STATE OF RIO DE JANEIRO, BUT THAT SUCH AN UNDERTAKING WOULD REQUIRE A MINIMUM COMMITMENT OF 3,000 CARS TO BE ECONOMICALLY FEASIBLE.

3. MINISTER RESPONDED THAT HE WELCOMED PULLMAN'S PARTICIPATION IN COMPETITION FOR REDE PURCHASES, AND HE ASSURED COMPANY REPS THAT PULLMAN'S OFFERS WOULD RECEIVE FAIR AND THOROUGH CONSIDERATION IN OPEN COMPETITION. HE ADDED, HOWEVER, THAT COMMITMENT FOR 3,000-CAR ORDER WAS NOT ACCEPTABLE, SINCE REDE HAD NEITHER THE FINANCIAL NOR OPERATIONAL CAPACITY TO UNDERTAKE COMMITMENTS OF THAT SIZE AT ANY ONE TIME. PULLMAN REPS RESPONDED THAT DELIVERIES WOULD BE STATED OVER WHATEVER PROGRAM WAS ACCEPTABLE TO GOB AND NOTED THAT PULLMAN HAD BEEN ABLE TO OBTAIN EXCEPTIONALLY FAVORABLE FINANCING TERMS OF 14 YEARS. MINISTER RESPONDED THAT HE APPRECIATED PRODUCTION CONSIDER-

ATIONS FACING PULLMAN BUT THAT GOB HAD MADE DEFINITE DECISION IN LIGHT OF NATIONAL RAIL SYSTEM'S CAPACITY, AND THAT INTERNATIONAL COMPETITION WOULD HAVE TO BE BASED ON SMALLER PARCELS PRESENTLY CONTAINED IN REDE ACQUISITION PROGRAM. HE ADDED THAT, WITH FOUR EXISTING RAILCAR FACTORIES IN BRAZIL, GOB WOULD NOT BE PARTICULARLY INTERESTED IN ADDITIONAL ASSEMBLY PLANT PROPOSED BY PULLMAN.

4. DURING CONVERSATION, MINISTER ON SEVERAL OCCASIONS STATED THAT HIS INTEREST IN RAIL EXPANSION PROGRAM WAS LIMITED OFFICIAL USE

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TECHNICAL AND OPERATIONAL, AND THAT HE HAD LITTLE INVOLVEMENT OR INTEREST IN COMMERCIAL OR FINANCIAL ASPECTS. HE RECOMMENDED THAT PULLMAN KEEP IN CONTACT WITH REDE OFFICIALS. IN DISCUSSION OF PURCHASES FROM EASTERN EUROPEANS, MINISTER DID COMMENT THAT ONLY SPECIAL DEALS GOB MIGHT CONSIDER FOR RAIL CAR PURCHASES, OUTSIDE OF OPEN COMPETITION, WOULD BE BARTER-TYPE ARRANGEMENTS, IN WHICH BRAZIL COULD PAY FOR PORTION OF PURCHASE IN COMMODITIES, SUCH AS COFFEE, AS WAS

BEING DONE WITH SOCIALIST COUNTRIES.

5. FOLLOWING MEETING PULLMAN REPS SAID THAT, IN SPITE OF
HARD LINE TAKEN BY MINISTER, THEY THOUGHT MEETING HAD FAVORABLE
IMPACT BECAUSE THEY WERE ABLE TO COMMUNICATE TO MINISTER
THAT PULLMAN'S OFFER WAS FAR MORE ATTRACTIVE, PARTICULARLY
ON DELIVERED BASIS, THAN ANY OTHER COMPETITOR. THEY SAID
THAT COMPANY'S MAJOR TASK AT THAT MOMENT IS TO OVERCOME A
BIAS WITHIN THE REDE AND AT SENIOR LEVELS IN THE MINISTRY
OF TRANSPORTATION IN FAVOR OF THE EASTERN EUROPEANS AND ALSO
TO OVERCOME A PRESUMPTION THAT PRICES OF US SUPPLIERS ARE
INEVITABLY HIGHER THAN OTHER COMPETITORS. TAVARES TOLD
EMBOFF THAT HE WOULD CONTINUE CONTACTING REDE OFFICIALS
AND ALSO MINISTRY OF FINANCE OFFICIALS IN RIO, SO THAT
ELEMENTS OF GOB CONCERNED WITH CONDITIONS AND TERMS OF
EXTERNAL FINANCING WOULD BE AWARE OF PULLMAN'S OFFER.
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